

PD-ABT-247.



CARANA Corporation

B O L I N V E S T

A Review of Past Activities

**Transformation to an
Independent Foundation**

Issues and Concerns

Final Report

Prepared for:

USAID/Bolivia & Fundación BOLINVEST

March 1996

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**LESSONS LEARNED IN EXPORT AND
INVESTMENT PROMOTION**



CARANA Corporation

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INTRODUCTION

Over the years there have been many "lessons learned" about export and investment promotion theory and practice.

Several useful studies have been made that have been particularly useful in compiling information in this area. Two of the better analyses are:

- Economic Development Institute of the World Bank: "The Role of Support Services in Expanding Manufactured Exports in Developing Countries"
- USAID Evaluation Series on Export and Investment Promotion

Throughout this chapter we cite many of the findings from these studies. They represent valuable background material for anyone researching effective export and investment promotion programs.

In BOLINVEST, as well as in other programs that CARANA has implemented, we have been able to verify these findings, and have added a few of our own "lessons" to the list.

- Unfortunately, most export and investment promotion programs continue to ignore "lessons learned" - repeating the same mistakes over and over again, and yielding very poor results.
- There is no technical reason for this. The knowledge is available to everyone.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

DEFINITIONS

What do we mean when we talk about export and investment promotion programs? There are different interpretations of the meaning and objectives of each of these kinds of programs. While interrelated in many ways, they encompass distinct types of activities and are very different in their implementation. Therefore, it is essential to have clear definitions of “investment” and “export promotion.”

- Export promotion refers to those activities whose objective is the promotion of the national production base abroad.
- Investment promotion refers to those activities whose objective is to promote the establishment of direct foreign investment in the host country.

Activities undertaken under each type of program may be common to each other (the maintenance of promotional offices abroad, for example) and their overall objective may also be the same (job creation, increased foreign exchange). However, the specific actions and strategies implemented in each type of program are very different.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

SYNERGIES AND DIFFERENCES

Should export and investment promotion programs be implemented in separate agencies?

There are many differences in these programs because of who the "target" is and who the beneficiary is. Some examples are provided below.

- The "target" in foreign markets is different and, as a result, the way they are located, contacted, and marketed are very different.
 - In investment promotion, the "target" is a company looking for an offshore production site that will increase its profitability.
 - In export promotion, the "target" is a corporate buyer looking to source a new product or service, or gain a better price advantage for existing ones.
- The beneficiary is different and, as a result, their requirements are not the same.
 - In investment promotion, the beneficiary is the foreign target who we assume have access to technology and markets. This type of beneficiary requires information in order to make an informed decision on a country, and will seek additional considerations in order to increase the profitability of a possible operation.
 - In export promotion, the beneficiary is a local company that may not have access to technologies and markets, and therefore requires specific support in these areas.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

SYNERGIES AND DIFFERENCES

The differences cited earlier make for very different strategies and implementation methods, which in turn can lead to very different organizations. Many individuals and organizations call for a separation of export and investment promotion activities.

- There is some logic to this. In fact, when investment promotion was first incorporated into what is now known as BOLINVEST, it was established as a totally separate division with very little contact with the export promotion division.

However, based on CARANA's experience with different promotional programs, we have concluded that there are some very good reasons for keeping investment and export promotion activities together, particularly in developing countries.

- In quite a few cases we have seen potential investors decide against a direct investment in a country and enter into a long-term subcontracting relationship with a local company instead. Many times this has required close coordination between both the investment promotion and export promotion teams, including the negotiation of a technical assistance package with the local firm which sometimes has included the foreign firm.

There is also the economic factor as well. Few developing countries can afford to maintain completely independent investment and export promotion programs, including internal regional offices in the country as well as promotional offices abroad.

If coordination were perfect, and resources were not an issue, there would be an argument for managing and housing the two types of programs separately. Unfortunately, these circumstances occur very rarely in developing countries.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

ESSENTIAL ELEMENTS - THE POLICY ENVIRONMENT

An efficient and well managed program is not the only essential ingredient for success in the promotion of exports and investments. These programs more often than not, require a supportive framework.

- Studies have shown that a strong, positive policy environment in a country is essential to the success of an export and investment promotion program.

A positive policy environment includes, but is not limited to:

- An appropriate, stable monetary and fiscal policy
 - favorable exchange rate, free convertibility, absence of tax disincentives, (e.g., direct and indirect), which lead to internal price distortions
- Adequate and competitively priced infrastructure
 - water, electricity, transportation, fuels, communications
- Stable and supportive government
 - long-term commitment, consistent policies that facilitate exports and investments

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

ESSENTIAL ELEMENTS - THE POLICY ENVIRONMENT

Few countries have been successful in launching a successful and sustained investment or export promotion drive without the appropriate policy environment in place:

- Japan, the "Four Tigers," and now many other Asian or Pacific Rim exporters serve as examples of countries that launched major and successful export promotion initiatives only after the appropriate policy environment was put in place.
- One of the many reasons for the failure of many programs is that they were launched within a weak or counterproductive policy framework.

The lack of a positive policy environment, however, is not an automatic prescription for failure. Specific strategies, such as the creation of Free Zones or specific export and investment incentives and subsidies, are designed to work around a poor policy environment and have been used successfully. But these types of programs have several drawbacks.

- They provide a temporary solution that can cause other distortions in the economy.
- They do not "fix" the problems that are responsible for a negative policy environment.
- They limit economic growth to specific sites or situations.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

ESSENTIAL ELEMENTS - GOVERNMENT COMMITMENT

A major component of a positive policy environment is a stable and supportive government.

- Truly successful export and investment promotion programs require leadership and a clear, long-term commitment and on behalf of the government.

Successful countries have shown us that export and investment promotion initiatives are long term in nature - at least ten to twenty years before a major impact can be seen at the country-wide level. There are no real shortcuts, and the path to results has many steps that cannot be eliminated or skipped.

Many countries that have successfully implemented long-term economic development programs have done so using the development of the foreign commerce sector as a central pillar. However, this requires a total commitment on behalf of the government, something which for the most part has been difficult to achieve in Latin America.

- Countries where governments have not been able to, or are not willing to make a long-term commitment in this area can expect less than optimal results.
- In these situations, local private sector chambers and associations represent the only real pressure groups that can work to influence their governments to act more rationally.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

THE ROLE OF GOVERNMENT IN INVESTMENT AND EXPORT PROMOTION

The most successful programs have the full and open support of the government, play a clear and defined role within the country, and yet have the ability to act independently and free of political interference.

- This is especially true in investment promotion, where any investor is going to want to know what the government's policies are towards his investment.

Unfortunately, this is almost never the case.

- In most instances, investment and export promotion programs are actually within the government, and are subject to political interference and the limitations of public sector administration. As a result, suffer from many of the problems that were cited on page 9 of this chapter.
- Almost all programs that are being implemented outside of the public sector lack full and open governmental support, and many times are subject to competing (though not necessarily effective) programs, creating a less than ideal situation.

Hybrid (mixed private and public sector governance) institutions present an alternative as long as all key conditions for success are maintained.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

TYPICAL PROMOTIONAL AGENCIES

A study of the Economic Development Institute at the World Bank¹ pointed out that the majority of developing countries rely on one or more public export promotion agencies the vast majority of which are ineffective. A "typical" export promotion agency was described as follows (a "typical" investment promotion agency would have the same characteristics):

- Lacks planning, clear objectives, and consistency.
- Receives little support from both the private and public sector (but will not die).
- Focuses on Missions, Trade Fairs (marketing) rather than on supply side constraints, with no real methodology or follow-up (today we have to add the use of electronic data bases and networks to the list of marketing activities).
- Programs tend to be passive or reactive, not proactive.
- Management is politically appointed, and both management and staff have no real commercial experience.
- Staff is poorly paid (in relation to private sector counterparts).
- Results are not objectively measured and the organization does not adapt to the need for improved results.
- Lacks the administrative and/or the financial flexibility to be effective.

¹ Development Assistance Gone Wrong: Failures in Services to Promote and Support Manufactured Exports by Donald Keesing and Andrew Singer.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

TYPICAL PROMOTIONAL AGENCIES

Many of these agencies were created in the 1960s with the support of international development agencies. Unfortunately, many of these organizations were created based on the same program strategies and methodologies, in spite of their apparent lack of tangible results. From early performance of these organizations was measured by processes (trade fairs participated in, number of visitors) and not by tangible real results.

As a result, mediocrity has become the norm. Today, almost all promotional programs being implemented around the world continue to repeat the same mistakes as in the past, and are not cost effective. Yet they continue to exist and receive support from host governments and international donor agencies.

- While the United Nations Development Programme is one of the major "sinners" in this regard, almost all development agencies, including the Interamerican Development Bank, the different European development agencies, The World Bank, and the United States Agency for International Development share a certain degree of responsibility for this situation.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

EXPORT PROMOTION - TYPES OF EXPORT PROMOTION ASSISTANCE

Export assistance activities can be grouped into two major categories: indirect and direct assistance programs, each of which can be further broken down as illustrated below.

- Indirect Assistance - Information Dissemination (broadly distributed, un-targeted)
 - Business publications/market information
 - Business lead information
 - Export seminars and conferences
- Indirect Assistance - Promotion Events and Lead Matching (opened to a wide number of firms without targeted, hands-on help)
 - Trade shows and missions
 - Trade leads matching services
- Direct Assistance - Facilitation and Training (involving direct participation of companies)
 - Outreach, counseling, and marketing services
 - Buyer-seller matching services
 - Trade development training
 - Overseas offices - direct intermediation
- Direct Assistance - Services in-kind (services granted directly to companies)
 - Export financing
 - Subsidies and other incentives
- Direct Assistance - Company specific technical assistance (highly targeted)
 - Assistance in all aspects of production and marketing as required by individual companies

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

EXPORT PROMOTION - TYPES OF EXPORT PROMOTION ASSISTANCE

Experience has shown that depending on the sophistication of target companies and of the policy environment in which they operate, different forms of assistance will be more effective and need to be individually tailored.

- Generally, indirect assistance programs are most effective when used in more developed country environments and when directed at companies with a high degree of sophistication, including some export experience. Indirect assistance programs facilitate exports, but will have little impact in developing *new* exporters. These programs tend to target broad groups of companies, so the cost of implementing them tends to be lower (on a per company basis) than for direct assistance programs.
- Direct assistance programs are more effective in "constrained" policy environments and work better for companies with little or no export experience. Direct assistance varies in the intensity of technical assistance offered to individual companies. However, these types of programs have proven to be one of the most effective ways of developing new exporters, even though they typically are more costly on a per-company basis than indirect assistance programs.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

EXPORT PROMOTION - THE MYTH OF THE "OFERTA EXPORTABLE"

The vast majority of export promotion programs today is based on the belief that the main limitation in the development of export markets is lack of market knowledge and market access.

- Thus, the promotion of the "*oferta exportable*", using indirect assistance type activities, is the norm. Assistance is directed towards marketing rather than overcoming supply problems.

The reality is that with few exceptions in developing countries there is no real *oferta exportable*. **The problem is not one of exporting what is produced, but rather one of producing that which can be exported.** As a result, potential exporters require assistance in a variety of areas, of which just a few are listed below:

- On-time delivery
- The right product for the market
- Quality control
- Quantity (matching market demand volumes with production capability)
- Pricing (understanding and/or reducing costs)

(This is what we call the "Four Cs": *Calidad, Cantidad, Cumplimiento y Costos*)

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

EXPORT PROMOTION - SUPPLY SIDE PROGRAMS

The focus of many new programs has been on the expansion of the production base through many different types of intervention mechanisms. Once again, the effectiveness of some of these interventions depends on country conditions.

- While frequently indirect assistance programs can be useful, in places like Bolivia we have found that in many sectors tailored direct enterprise technical assistance is the most effective form of intervention.

Company level assistance programs can be targeted to a specific problem, or set of problems, or can be broadly-based depending on the needs of the company. To be successful, certain conditions need to be met.

- Selection criteria for company participation should be clear and understood by all parties.
- The implementing agency (BOLINVEST) must have a full understanding of the overall company and issues that might affect the outcome of the technical assistance. For example, a company in financial difficulties may not have the strength to follow through with possible recommendations.
- The company (particularly its management and owners) must be committed to the program of technical assistance. Many times this is accomplished by having the company pay for some of the services received.
- There must be a clear - written - understanding as to the objectives of the intervention, the actual assistance that will be provided, the time frame, the financial commitment (budget), and the responsibilities of each of the parties.
- Progress must be measured constantly and objectively. Companies that do not meet targets, or that do not meet their responsibilities, should be eliminated from the program.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

EXPORT PROMOTION - MARKETING ASSISTANCE

Marketing assistance is just another form of technical assistance that a program can offer provide a client.

- In some cases, such as in well established sectors with export experience, marketing assistance in identifying new buyers or penetrating new countries may be the only assistance required.
- On the other hand, a lot of damage can occur if marketing assistance is provided to firms that are not ready for export markets (loss of credibility to the company and to the country, financial risk to the company, and discontent and loss of credibility for the implementing agency).

Marketing assistance can be provided in many different forms, and there is no one right way.

- The more directed (company specific), the greater the chances of success.
- The existence of an overseas offices network - although expensive - is a major asset for an export promotion program such as BOLINVEST.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INVESTMENT PROMOTION - TYPES OF ACTIVITIES

Investment promotion activities can also be grouped into two major categories - general and targeted - and several sub-categories as illustrated below.

- General Promotion - Information Dissemination; Advertising; Public Relations
 - Promotional materials
 - Investment profiles
- General Promotion - Promotion Events
 - Investment missions
 - Participation in trade shows
 - Establishment of national information office
- Targeted Promotion - Direct Selling (to specific, targeted companies)
 - Cold calling
 - Presentations
 - Targeted seminars
 - Overseas offices - representation in the marketplace
- Targeted Promotion - Grants and Subsidies (granted directly to companies and negotiated individually)
 - Project financing
 - Subsidies and other incentives (low rent or free buildings, training for employees, tax incentives, operating or start-up subsidies, etc.)

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INVESTMENT PROMOTION - TYPES OF ACTIVITIES

Targeted investment promotion activities are considered to be the most effective by far. Two prime examples are:

- Puerto Rico: In the 1950s, Puerto Rico became one of the pioneers in the implementation of highly targeted programs. To this day, Puerto Rico (FOMENTO) continues to work in this manner, with a sizable budget and strong government support.
- Republic of Ireland: In the 1960s Ireland reorganized its Industrial Development Authority, and in the process eliminated many of the public sector constraints which affected the freedom with which it could operate. Most importantly, the IDA adopted the same targeted approach.

Since then, this targeted promotional model has been successfully implemented in several developing countries, demonstrating that the model could be adapted to different national environments.

- General, non-targeted investment promotion programs do not come close to yielding the kinds of results that a targeted program can under the right country conditions.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

WHAT IS A TARGETED INVESTMENT PROMOTION PROGRAM

In summary, this is a program that uses a variety of techniques to target potential investors, call on them directly, and manage the selling process until the investment is made in the host country.

For the most part these programs consist of an overseas marketing arm (usually directly controlled offices) in addition to a national office.

Targeted programs are based on the premise that marketing a country is no different than marketing a product for a company.

- Define and identify your client.
- Understand the client and his needs.
- Provide the client with information on your product - differentiate your product.
- Convince the client that your product is what he needs.
- Help the client through the "acquisition" process and beyond.
- Monitor feedback (what are clients - and lost clients - telling you about your product, and how should you change it).

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INVESTMENT PROMOTION - FOREIGN OFFICES

A foreign office can be a modest operation, where the bulk of resources should be oriented towards the selling process - including hiring and training the right promoter(s).

- Few investors, if any, will actually ever visit the office.
- The best promoter is a national from the country being promoted, yet one who also understands the culture of the country in which he is doing the promoting.

The major activities carried out in a foreign office include:

- Research and Targeting (with the assistance of the national office): Use of data bases, reference materials, referrals, etc. The objective is to identify and learn about the potential investor before calling on him.
- Cold Calling or other direct sales efforts: The objective is to get the potential investor to agree to receive information from the program.
- Presentations: The objective is to get the potential investor to visit the country (site visit).
- Site Visits and Follow-up: The objective is to get the investor to establish an operation in the country.
- Feedback: Provide constant feedback on activities and market findings to the national office.

The process requires effective coordination and the ability to manage multiple activities at once.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INVESTMENT PROMOTION - THE NATIONAL OFFICE

The national office represents the program's headquarters and is the key intermediary between the potential investor and the host country. For this reason, the national office tends to be highly visible.

The major activities carried out in the national office include:

- Overall program strategy, coordination, reporting and evaluation.
- Research on likely sectors of interest.
- Generation of promotional materials and information generation.
- Support for the foreign offices.
- Site visit implementation.
- Facilitation and support during the investment process.
- Monitoring of established investors.

LESSONS LEARNED IN EXPORT AND INVESTMENT PROMOTION

INVESTMENT PROMOTION - WHO IS THE INVESTOR?

There is a lot of confusion as to who the investor most likely to invest might be.

99% of the time, the investor is a company with an established market for the product, up-to-date manufacturing technology and adequate financing.

- The investor is usually looking for access to new markets, access to specific raw materials, or lower manufacturing and/or distribution costs.

For the most part the investor is an individual that uses the investment promotion program as an efficient way to gather information on a country.

- Rarely does the investor base his decision only on investment profiles and in sectors where he has little or no experience.

Any investment promotion program should *avoid*:

- Investors that are seeking local financing for their project and that request assistance in securing financing.
- Investors that request subsidies for feasibility studies or for trips and visits.
- Investors whose reputation and/or seriousness cannot be verified independently.

ORGANIZATIONAL HISTORY

ORGANIZATIONAL HISTORY

INTRODUCTION

Since the project's inception in late 1989, BOLINVEST has gone through several organizational changes:

1989 - 1990:	Initial Project Design
1990 - 1991:	Export Promotion Focus
1990 - 1991:	Introduction of Investment Promotion
1991 - 1994:	Dual Function Organization (Export and Investment Promotion)
1995 - ongoing:	Current Structure

This section of the report presents a review of the different organizational structures listed above, and the reasons for some of the changes over time.

Also presented in this section are some of the conclusions and lessons learned in the implementation of the BOLINVEST project.

ORGANIZATIONAL HISTORY

CREATION OF AN INSTITUTION

It is important to recognize that for the first four years of the project it was never USAID's intent that the BOLINVEST should become a permanent institution. Rather, CARANA's BOLINVEST was always seen as a project with a definite life span, one which would disappear upon termination of the CARANA contract. Some of the reasons for this thinking were:

- The initial project design assumed that CARANA would work within existing local counterpart organizations which, in turn, would be strengthened as a result of the project. Therefore, no new organization was needed.
- Many of AID's investment and export promotion projects elsewhere had spent too much time and energy on institutional issues. AID felt that it would be more efficient to contract a company with experience in this area.
- Working directly through a consulting company also provided AID with:
 - Better control of the project.
 - Ease of termination, if necessary.
 - Little investment in institutional strengthening.

ORGANIZATIONAL HISTORY

CREATION OF AN INSTITUTION

It was not until 1993 that AID first began to think in terms of a possible BOLINVEST organization with a life beyond the CARANA contract.

- Program results were impressive and stood up to independent evaluations and audits.
- Although never an original objective of the project, BOLINVEST evolved into an organization which can act independently of CARANA.
 - Individuals have been trained and remain highly motivated.
 - The program has absorbed investment and export promotion techniques successfully but, more importantly, BOLINVEST has been able to adapt and enhance these techniques to Bolivia's benefit.
 - A working organizational structure is in place which already carries out most of the functions necessary to act on its own.
- Initial contacts with international donors and with private sector foundations discovered that there would be some support for the organization.
- There is a strong belief that BOLINVEST's clients value the services that they receive and they would be willing to pay for a greater portion of the costs of the services.

While AID is supporting the creation of Fundación BOLINVEST with a new project agreement, this should be viewed as the last time that AID will be able to provide financial support for the BOLINVEST project.

ORGANIZATIONAL HISTORY

1989 - 1990: INITIAL PROJECT DESIGN

The initial project design called for the placement of consultants within local counterpart organizations in the three major cities in Bolivia.

- The focus of the project was on export development.
- The consultants were to receive support from and work through these local organizations.

Within a few months, CARANA requested that the project be able to work independently of the counterpart organizations.

- CARANA staff felt that there were several disadvantages to being located within the organizations
 - Loss of independence and flexibility.
 - Promised support was not being provided in all cases.
 - It was felt that it would be more productive to develop project staff specialized in export development.

AID eventually agreed with the request and specific agreements were reached with some of the organizations.

The separation from the local organizations did cause some resentment and did affect the project in later years.

ORGANIZATIONAL HISTORY

1990 - 1991: EXPORT PROMOTION FOCUS

During this phase, the project maintained its focus on Export Promotion.

- Early successes were registered and verified by AID, giving the project some early credibility.
- The first of the overseas offices in Latin America was established, providing the program access to market information and the ability to support marketing functions directly in the field.

For the most part, the organization was simple.

- An executive director's office, with an export development unit and a smaller administrative division.
- Decision making was highly centralized.

In early 1990, however, AID became interested in adding an investment promotion component to the project, and the project began the process to explore this possibility.

ORGANIZATIONAL HISTORY

1990 - 1991: INTRODUCTION OF INVESTMENT PROMOTION

To interest Bolivians in both the private and public sectors in the need for the creation of a serious investment promotion effort, several consultants from Costa Rica were brought to Bolivia. In turn, a high level delegation of Bolivians visited Costa Rica to learn more about what had been done there.

- Several organizational structures were proposed, including the creation of a new and separate entity with its own Board of Directors.
- This open approach by AID led to elevated expectations.

1990 also saw the turnover of most of the officials at AID that were involved with the project, and new staff had different ideas as to how the project should evolve. They felt that:

- The investment promotion function should remain within the existing contract.
- A new entity should not be created.
- There were some doubts as to the success an investment promotion effort might have, and they opted for a less ambitious investment promotion pilot project within the existing CARANA contract.

AID's unilateral decision not to create a new entity also led to some resentment in Bolivia among a few key public officials and members of the business community.

ORGANIZATIONAL HISTORY

1990 - 1991: INTRODUCTION OF INVESTMENT PROMOTION - Continued

By mid 1990, AID had decided to fund an investment promotion pilot, and soon after CARANA and AID began jointly to staff the investment promotion division.

The investment promotion unit was located within BOLINVEST, but was independent from the rest of the project.

- Investment promotion managers were given a great deal of autonomy from the rest of the organization.

As a result two different styles and work cultures evolved within BOLINVEST:

- That which revolved around the investment promotion unit; and
- That which revolved around the export promotion unit.

This created an internal conflict within the organization which was to haunt the organization for the next three years.

ORGANIZATIONAL HISTORY

1990 - 1991: INTRODUCTION OF INVESTMENT PROMOTION - Continued

During this time, AID attempted to introduce the involvement of the local private sector through the creation of a "Grupo Consultivo." However, while AID wanted this as a way of getting the private sector involved, neither AID nor CARANA want the group to intervene in any substantive way for fear that it would distract or derail the program.

In spite of the fact that very competent individuals were chosen for this group, the effort was doomed to failure from the beginning.

- No clear role was ever defined for the group.
- The group did not have any decision making power.
- The group was never consulted on substantive matters, and on important issues, only after the fact.

Consequently, it could not be expected that this group would maintain a very high level of interest and it was finally dissolved during the creation of the Board of Directors for Fundación BOLINVEST.

ORGANIZATIONAL HISTORY

1991 - 1994: DUAL FUNCTION ORGANIZATION (EXPORT AND INVESTMENT PROMOTION)

By the end of 1991, the investment promotion unit was fully staffed and had even established its "own" offices in the United States (New York and Miami).

- Two expatriate managers had been brought in from Costa Rica to provide the necessary technical assistance.
- Expectations and morale were high.

The export promotion unit continued to operate independently, with good results to show for its efforts.

- The export promotion unit went on to launch the PROATEC project, an initiative designed to provide technical assistance to small rural organizations.

Unfortunately, the two sides of the organization - exports and investments - were constantly in conflict.

- There was little or no coordination between the units, and at times outright hostility.
- This also resulted in poor resource allocation.

The problem was further aggravated by the fact that the then overall project director did very little to resolve the conflict, and at times even fueled the situation as a way to gain greater control over the investment promotion managers.

ORGANIZATIONAL HISTORY

1991 - 1994: DUAL FUNCTION ORGANIZATION - Continued

Problems continued to mount in 1992:

- The two investment promotion managers also began to clash with each other, as well as with the project's executive director. This led to the departure of one of them in May of that year.
- The constant conflicts between the remaining investment promotion manager and the rest of the organization resulted in his eventual dismissal by the end of that same year.

In spite of these problems, many positive events were occurring:

- The first attempts were made to have all of the foreign and regional offices report to one manager as a way to improve coordination and provide export and investment support throughout the organization.
- The investment promotion unit began to have some initial successes, and although the original strategy, which focused on the United States as the primary market, was not providing results as anticipated, for the first time the investment promotion potential of the Latin America offices was systematically explored.
- The export promotion unit began to focus on products with greater value added and in new sectors.
- The PROATEC project continued to evolve, giving BOLINVEST greater projection into the small and micro rural sector, and providing BOLINVEST with a "social" program.

ORGANIZATIONAL HISTORY

1991 - 1994: DUAL FUNCTION ORGANIZATION - Continued

In March of 1993 the program's executive director was fired. CARANA staff (Carlos Torres) assumed the director's responsibilities until a new replacement was found. The new executive director was brought in from outside of the organization.

The executive director was fired for malfeasance, although upon intervention by CARANA staff additional problems were discovered and corrected over the course of the year. For example:

- The administrative unit was completely reconstructed and written procedures were developed and put in place. Administrative staff were given authority to question and clarify transactions prior to processing.
- Open management meetings were held in which the unit managers were for the first time explicitly included in the decision making process and provided with greater levels of autonomy. For example, budgets were developed for each of the operating units, and unit managers were given the freedom to act within those budgets - and held accountable for results.
- Organizational conflicts were discussed openly, clear areas of responsibility were developed and put in writing. This helped solve many of the problems - although not all.
- A transparent personnel management system was developed and implemented.

ORGANIZATIONAL HISTORY

1991 - 1994: DUAL FUNCTION ORGANIZATION - Continued

From 1991, when the investment promotion effort was first introduced, through the end of 1994, the organization consisted of four major divisions:

- An investment division that was responsible for investment promotion and, beginning in 1993, which also oversaw the regional and foreign offices.
- An export division that was responsible for export promotion, and that oversaw all technical assistance to domestic firms, as well as the PROATEC project.
- An administrative division responsible for local accounting and administrative functions.
- The executive director's office which oversaw the project and was responsible for overall project coordination.

In September 1994, the program's second executive director left. He was replaced by the then export manager because it was felt to be more effective not to bring in an individual from outside of the organization.

Coordination issues between the investment division and the export division persisted throughout this time, although to a lesser degree in 1993 and 1994.

ORGANIZATIONAL HISTORY

1995: CURRENT STRUCTURE

In December of 1994, BOLINVEST's investment manager left the program, creating an opportunity for the executive director, in conjunction with the unit and regional office managers, to explore possible alternatives.

- With the departure of the investment division manager, coordination problems within the organization finally disappeared.

During the first few months of 1995, an open and constant discussion on possible organizational changes was maintained. This led to a consensus, and a new organizational structure was introduced in May of 1995.

Perhaps the most important result of this new organizational structure is that the export and investment divisions were dissolved, and all operating units now are responsible for carrying out both investment and export functions.

The second most important change within the organization was the decision by AID, CARANA and, most importantly, the project staff to work to establish BOLINVEST as an independent entity that would seek funds from diverse sources and continue to offer services beyond the life of the current CARANA - AID contract.

- Up until this moment, the contract had been scheduled to terminate by August 1995.
- AID agreed to extend the project through March of 1996.

ORGANIZATIONAL HISTORY

1995: CURRENT STRUCTURE

This new organization consists of the executive director's office, responsible for overall coordination, strategic planning and oversight, and several operating and coordinating divisions.

- The planning and operations division, based in La Paz, which is responsible for coordinating the activities of the foreign offices, all technical assistance, information services and the library.
- Three regional offices: La Paz (also covers Potosí and Oruro); Santa Cruz (also covers Beni and Pando); and, Cochabamba (also covers Tarija and Chuquisaca). All operations in Bolivia are carried out through these offices.
- Six foreign offices (Peru, Chile, Argentina, Brazil - Campo Grande and Sao Paulo, and Germany). These offices carry out the project's market information and marketing operations, and all foreign activities are carried out through these offices.
- PROATEC: Because PROATEC receives its funding from a different source, it is established as a separate unit. However, all activities are carried out in coordination with the rest of BOLINVEST.
- The administrative division, responsible for all administrative issues.

In June 1995, with the signing of the legal documents to create Fundación BOLINVEST, a Board of Directors was established, and will assume the current oversight functions currently carried out by CARANA.

ORGANIZATIONAL HISTORY

CONCLUSIONS - LESSONS LEARNED

BOLINVEST is one of the most efficient export and investment promotion agencies of its type operating in Latin America, yielding excellent results on a limited budget throughout the years.

There is no doubt, however, that over the years there have been problems, especially difficult to resolve internal conflicts, leading to several management changes. However, we feel that there have been some valuable "lessons learned" throughout this process.

- CARANA was selected by AID to implement this project in part based on its successful experience in the design and implementation of export and investment promotion programs elsewhere. However:
 - CARANA's overall project manager from 1989 to 1992 was not an expert in export development and investment promotion and, for the most part, was acting in an administrative capacity.
 - CARANA delegated many of the technical aspects of the project to BOLINVEST's executive director during the first years of operation, and did not carry out the necessary oversight. Furthermore, given the excellent results from the beginning, CARANA staff felt that there was no need to change the prevailing management style. As a result, CARANA did not have a full understanding of many of the internal problems which would have destroyed the institution had CARANA not intervened in early 1993.

ORGANIZATIONAL HISTORY

CONCLUSIONS - LESSONS LEARNED - Continued

- AID's involvement with the project over the years has been strong and this has been a positive factor for the most part. However:
 - When AID pushed for the introduction of an investment promotion effort based on Costa Rica's successful experience, CARANA was too willing to go along with AID's wishes, including seeking out and hiring individuals that had been working in Costa Rica.
 - A greater effort should have been made at the time to integrate investment promotion activities within the organization, taking into account more closely the many differences between Bolivia and Costa Rica. While the "lessons learned" in Costa Rica were informative, the strategies applied in there were inappropriate to the realities in Bolivia.
- Given the many changes in the organization in 1993, CARANA was hesitant to make additional managerial alterations in 1993 and 1994 for fear of "traumatizing" BOLINVEST even more.
 - While it would be speculation to estimate the impact of yet additional managerial changes had they been put into place in 1993, it is clear that BOLINVEST eventually benefitted from subsequent modification when they were made one year later - raising the question as to whether or not the changes indeed should have been made earlier.

ORGANIZATIONAL HISTORY

CONCLUSIONS - LESSONS LEARNED - Continued

- Attempts to develop a support base for the project in the private sector were weak and ineffectual, and in some cases may have backfired. In part this was as a result of a strategy to maintain a low profile; in part it was due to the belief that BOLINVEST would never be a permanent institution.
 - Once there were some initial successes, the project should have made a strong effort to establish a support base in the private sector. Even if the decision had been made not to create the Fundación and to terminate the project in August of 1995, private sector support would have facilitated many of the activities that BOLINVEST was trying to carry out.
- The same can be said about BOLINVEST's support base (or lack thereof) within the public sector. There is no doubt that strong government support also would have facilitated many of BOLINVEST's activities.
- In the end, much of the credit for the success of the project goes to the staff. In spite of the issues that surfaced over the years, staff was motivated and continued to work towards the achievement of results.
 - A service organization's greatest asset is its employees and, in this regard, BOLINVEST has built up a great deal of "wealth" over the years.
 - There is no substitution for careful selection of employees and for the investment that an organization can make in developing its staff. As a "non-political" institution, BOLINVEST has been able to select staff based on technical merit, and this has contributed greatly to the success of the institution.

ORGANIZATIONAL HISTORY

CONCLUSIONS - LESSONS LEARNED - Continued

From the beginning, the project has always heeded the "lessons learned" elsewhere, and which are discussed in the first section of this report. Among the most important lessons that have never been forgotten by BOLINVEST and that have been reinforced many times are:

- A recognition that most companies in Bolivia, as in many developing countries, are not prepared to export. Consequently, the export program has concentrated for the most part on direct technical assistance aimed at developing new exporters and exports.
 - The focus of the export program has been on overcoming supply problems at the enterprise level (4 C's: *Calidad, Cantidad, Cumplimiento y Costo*). Company specific technical assistance programs have proven very effective in developing new exporters.
- The target client or beneficiary must be clearly defined (size, sectors, markets). The agency must be able to channel resources towards those beneficiaries that demonstrate the greatest probability of success (cannot be all things to all clients). Planned types of activities must be matched to the skills and abilities of the target beneficiary.

ORGANIZATIONAL HISTORY

CONCLUSIONS - LESSONS LEARNED - Continued

- The need for a clear strategy and measurable targets.
 - BOLINVEST has always had a clear strategy stating where it is going and how the different divisions within the organization fit within that strategy.
 - All components within BOLINVEST, including promotional offices abroad, have had clear operating guidelines which support the overall strategy and contribute directly to the achievement of targets. An operational imperative is that planned activities must contribute explicitly to the achievement of the established targets.
 - BOLINVEST has always had realistic, clear and measurable targets (results) which are in line with the level of funding and resources available.
 - A clear methodology for measuring results has been established and results (or lack thereof) are used to assess management.
- Institutional flexibility and resources
 - BOLINVEST has always had the institutional flexibility and level of funding to carry out its activities.
 - Budgets have been established at reasonable levels (in line with objectives and specific targets), and have been maintained over time in order to generate results
 - Political independence and the freedom to carry out activities that are most appropriate have always been maintained.
 - Staff have been hired based on strict professional qualifications.

BOARD OF DIRECTORS - ROLES & ISSUES

BOARD OF DIRECTORS - ROLE AND ISSUES

INTRODUCTION

The shift from a predominantly AID funded contract to a permanent institution funded from a variety of sources implies many changes for the institution. One of the most important areas has to do with institutional oversight, a function traditionally carried out by a Board of Directors.

- Until now, CARANA has been carrying out many of the functions of a Board of Directors at BOLINVEST. In this role, CARANA has formulated policy and provided oversight in a variety of areas that will soon be transferred to the Board of Directors of the Fundación.
- AID has also assumed some of these functions. As the primary funding source for the project, AID dictates many of BOLINVEST's institutional policies.

To assist in the transfer of control from CARANA to the Fundación's Board of Directors, this section of the report provides a discussion of the functions that the Board will be acquiring, along with a brief description on how CARANA has been managing these functions.

The shift to an independent foundation also will create new functions within the organization itself (e.g., proposal preparation and presentation, new accounting and auditing responsibilities, fund raising, etc.) and are also discussed in this Section.

BOARD OF DIRECTORS - ROLE AND ISSUES

PERSONNEL MANAGEMENT

CARANA's policy has always been to recruit the best possible staff for a project, and to compensate staff accordingly, as we have done in BOLINVEST.

- **Transparent selection:** Positions should be filled only after full and open competition both outside and inside of the institution.
 - A job description and selection criteria need to be defined in advance and clearly stated.
 - Interviews should be carried out by more than one person in the organization; however, the immediate supervisor's opinion should be weighted the most heavily.
- **Compensation:** BOLINVEST salaries have been established using an independent salary survey which is updated periodically in Bolivia, although some variations have been introduced in order to develop an appropriate compensation package for the program's staff.
 - Salaries have been established in the upper 25% range of the salary survey.

BOARD OF DIRECTORS - ROLE AND ISSUES

PERSONNEL MANAGEMENT - Continued

- Annual reviews: Annual reviews for staff are carried out by senior program management. Salary adjustments are also annual, and are divided into two parts.
 - An inflation adjustment, which is intended to compensate for the loss of purchasing power of the Boliviano.
 - A merit adjustment, which compensates employees based on performance. Merit adjustments have ranged from 0 to 6% in the past.
- Insurance and benefits: As a program funded with international donor funds, CARANA has provided private medical insurance for BOLINVEST employees (La Boliviana). Although it is exempt from laws requiring retirement or medical insurance, it nevertheless continues to contribute to both health and retirement funds. On other employment issues, the program acts according to Bolivian law.
 - CARANA has been accumulating a severance fund for all employees, equal to one month's salary per year worked. These amounts will be paid out to all employees upon transfer of employee contracts to the Fundación. The current value of this fund is approximately \$120,000.
 - The Board of Directors may wish to contemplate offering a private pension or savings program for employees wishing to invest the funds which CARANA will pay out.
 - The exception to the above policy have been those employees contracted under PL-480 projects, who are forced to work within the public sector systems.

Upon transfer of employees to the Fundación, the Board will have to determine to what extent BOLINVEST will have to modify its insurance and benefits system.

BOARD OF DIRECTORS - ROLE AND ISSUES

PERSONNEL MANAGEMENT - Continued

As an organization that is dependent on donor funding, many issues regarding personnel management require donor approval. Currently, AID must approve all salaries for local employees, consultants, as well as for CARANA staff, if they are paid for with AID funds. The same is also true for employees being paid under PL-480.

- While this policy may seem logical, it also has caused problems internally.
 - The source of funds may cause the institution to have to treat employees differently on compensation and benefits issues. This has already occurred in BOLINVEST.

As the Fundación absorbs BOLINVEST's employees, and as it begins to receive funds from additional donors and the sale of its own services, the Board of Directors may wish to explore ways in which to establish a set of personnel policies that covers all employees regardless of the source of funds.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - BUDGETS

The project's overall budget was established as a result of the competitive bidding process at the time that AID awarded the contract. Budgets for the current contract were originally presented in May of 1992. However, they have been modified several times, the most recent in August of 1995.

- While overall contract expenditure levels were established by CARANA, the annual operating budgets are prepared by the Program's management with CARANA staff.
- These budgets are developed by operating division, and a monthly budget control is prepared by BOLINVEST staff, based on CARANA's invoices to AID.
- The budgeting process itself is based on a "bottom - up" approach. Each division prepares its operating plans for the year, along with a requested budget. Management, in conjunction with CARANA, reviews these budgets and in a series of open meetings with division managers, makes the required adjustments.

CARANA has participated heavily in the development of annual budgets in the past. In the future, the Board will have to assume the responsibility of setting policy and reviewing budgets. However, management alone should prepare budget documents, as consistent with board policy guidelines.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS

One of the most important responsibilities that the Board will be assuming is the financial well-being of BOLINVEST. While in the past AID has funded the majority of its activities, BOLINVEST must now rely on a variety of funding sources:

- New donor funded projects.
- Sale of services.
- General fund raising activities.
- Establishment and management of an endowment.

AID has pledged to provide BOLINVEST with \$3 million over the first two years of the Fundación's existence. This money, which will cover more than 50% of the institution's operating needs, will soften the transition from an AID funded project to an independent foundation.

- It is imperative, however, that the Board of Directors begin working in this area now.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - NEW PROJECT DEVELOPMENT

To a large degree, the funding process begins with the identification of new projects which need to be developed into specific proposals for funding by third parties. Without new projects to present to potential donors, BOLINVEST would eventually cease to exist.

- This activity is vital to the well-being of the institution. New project development is in effect the Research and Development arm of the institution.
- Developing good projects is not enough. BOLINVEST needs to be aware of what *types* of projects are being funded by the different donor agencies.
- Currently the program's Executive Director has been managing this effort and CARANA has been involved in the review process.
- Current proposals to funding institutions seek support for existing activities in which BOLINVEST has a demonstrated capability. For the most part, these include the development of new production capacity, export promotion and investment promotion.

In the future, the Board and senior management will have to decide how much time and effort needs to be dedicated to this effort. More importantly, however, is the need to define what types of projects BOLINVEST should work on in the future.

- Over time, the Board may wish to change the scope of activities that BOLINVEST carries out, either because funding sources require it, or because the Board feels that existing areas of concentration are no longer relevant.
- The types of projects that the institution develops today will define the type of institution that BOLINVEST becomes in the long run.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - COST SHARING

It is of vital importance that BOLINVEST also continue to develop its programs to increase the portion of project expenditures that are recovered directly from beneficiaries.

- Experience has shown that results of the types of projects BOLINVEST is currently implementing are significantly improved when beneficiaries contribute directly to the cost of the program.
- Donors are reluctant to finance 100% of a project. They will almost always look for cost sharing mechanisms.

Currently, BOLINVEST has a cost sharing policy in place which increases the percentage contribution that the beneficiary must make, depending on the overall level of sophistication of the client and number of technical assistance interventions that the client has received.

- BOLINVEST needs to improve the tracking of client contributions as well as the overall level of cost sharing.
- Currently, beneficiary companies pay certain costs directly (air fare, hotels, local transportation) and these funds are not accounted for in a formal way in BOLINVEST's budgets.

In the future, BOLINVEST may wish to pay all costs directly, and have the beneficiary contribute his share directly to BOLINVEST. This may also have some benefits in terms of building an endowment for the institution.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - COST SHARING

While there has been a great deal of experience in cost sharing, determining an achievable level depends on several factors:

- The type of beneficiary and level of sophistication (PROATEC vs. BOLINVEST).
- The policy environment (Bolivia vs. Argentina).
- The type of service being offered (investment promotion vs. export promotion).
- The degree to which the payment of services are contingent on success (a fee for technical assistance vs. a commission on new sales).
- The degree to which the institution itself is acting as a development institution or as a commercial institution.

All of these factors make the determination of the "optimal" level of cost sharing a trial and error process. For the most part, development institutions have tended to begin the process in a conservative manner and slowly raise their cost recovery targets over time.

To a large extent, donor agencies require unrealistic levels of cost sharing in order to fund a project. Luckily, many of these same agencies do not closely monitor cost sharing results once a project has been funded. In the worst case, an explanation as to the reasons for the short fall in this area is enough.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - GENERAL FUND RAISING

In addition to seeking donor funding, the Board of Directors should consider carrying out a general fund raising campaign. There are several reasons for this, the most important of which are that it can demonstrate to donors broad support for a program and it is a good way to raise "unrestricted" funds. Furthermore, there are certain costs that donors will not pay for, but which are necessary.

- While this will be a source of funds, it will never be a major source funds. This type of activity is more useful to an institution in that it establishes a demonstrable level of support for the institution that institutional donors will want to see.

In a planning meeting held in January, 1995, program staff discussed several options for carrying out some of these actions. However, very little has been implemented to-date (this has mostly been due to a lack of staff time to carry).

- The strategy which may yield the highest return in this area would be to target past beneficiaries who have been asked to pay very little of their assistance costs, and who have benefited greatly from the program.
- Other possibilities discussed at the planning session included the publication of a newsletter, the creation of a member group that would be kept updated on the types of technical assistance being carried out, a BOLINVEST Credit Card (in conjunction with a major bank), and for-profit training sessions and seminars.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - ENDOWMENT

A major priority for the Board of Directors will be the establishment of an endowment for the institution. This is necessary in order to provide BOLINVEST with a certain degree of stability and, eventually, a greater degree of autonomy.

Donor institutions will react in different ways to the establishment of an endowment.

For the most part donors will resist the payment of their resources into an endowment fund, opting instead for annual operating costs in the mistaken belief that this more cost-beneficial.

Donors will resist the argument that if funds for a long term project are deposited in an endowment at the beginning of the project (thus allowing the institution to generate additional interest earnings), the institution is further strengthened, and in the long run the donor is provided with better leverage on their own funds to generate a long-term project impact and self-sufficiency.

Establishment of an endowment fund for BOLINVEST will not be easy. However, there are several ways in which it can be built up over time.

- Deposit beneficiary payment for services to the endowment fund, and utilize donor funds to pay for all expenses.
- General fund raising activities.
- Working with donors to deposit project funds with BOLINVEST up-front and to understand and accept the benefits of an endowment.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - PRICING

The pricing of specific donor requests will also have an impact on the financial stability of the institution. The degree to which the institution can build up an overhead rate that is acceptable to donors, and which contributes to costs that may not be directly attributed to a specific project, fosters financial stability.

- There is a variety of different pricing strategies that may be pursued, although not all will be acceptable to donors. This will require a certain degree of flexibility on behalf of BOLINVEST. The key is to develop an understanding of each donor, and to prepare a strategy for pricing donor proposals that benefits the donor as well as BOLINVEST.

FINANCIAL ISSUES - FUNDING CONSIDERATIONS - SUMMARY

A pricing strategy, combined with successful donor funding, general fund raising activities and cost recovery mechanisms, are all interrelated and form a part of an overall financial strategy of the institution.

- In an effort to understand the interrelationship of these variables and how they impact on BOLINVEST's financial position, CARANA developed a preliminary model ("Self Sufficiency Analysis - Fundación BOLINVEST: Draft Memorandum," July 26, 1995).

While the current model is still being developed, it does allow the user to alter variables such as level of donor support, program costs, cost recovery rates, and to measure the impact on cash flow. CARANA will work with BOLINVEST staff to further refine the model so that BOLINVEST staff has a procedure for analyzing alternative scenarios and their impact on the institution.

BOARD OF DIRECTORS - ROLE AND ISSUES

FINANCIAL ISSUES - ADMINISTRATIVE AND AUDITING RESPONSIBILITIES

One of the most important issues for an institution that manages donor funds is financial soundness and credibility. As a result, donor agencies will invariably require some type of financial audit to insure that the institution can account for funds in an open manner.

- For the most part, CARANA has been carrying out administrative and auditing responsibilities, and has been responsible for the sound management of donor resources. The latter often requires paying for specific project costs that a donor may disallow.
- BOLINVEST currently carries out all of the basic accounting and administrative functions. However, all accounting entries, the drafting of most financial reports, and the preparation of invoices is currently done by CARANA in Virginia. As a foundation in Bolivia, BOLINVEST will also be responsible for new functions that are not currently required under the project (preparation of financial statements, reporting to tax authorities, financial planning, etc.).
- Staff in Bolivia is currently preparing to carry out all of the necessary functions on its own, though some additional support may be required to insure continued implementation.

CARANA is confident that BOLINVEST will not have any problems in this area.

Currently, CARANA's auditors in the U.S. carry out an independent audit on all of CARANA's projects. The Board will now have to select an outside auditor for the Foundation to implement this activity in Bolivia.

BOARD OF DIRECTORS - ROLE AND ISSUES

PROGRAM TARGETS AND RESULTS

As with cost sharing, the targets that can be realistically established for export and investment promotion depend on a variety of factors, among others, the policy environment, level of sophistication of the beneficiary, the sectors the program works in and, development impact sought. These and other factors make it extremely difficult to establish meaningful targets.

- In investment promotion, some countries have spent as much as \$10,000 per direct job created. This figure can include not just promotional agency costs, but direct subsidies awarded to the target company. Programs in Central America targeting the "maquila" sector have been able to generate direct jobs at a cost of \$500 each. The target level sought for many programs similar to BOLINVEST is about \$1,000 per job created. Direct foreign investment is expected to reach a level of \$10 to \$20 for every dollar spent by the project (on investment promotion).
- In export development, programs focusing on development of new exporters and export products (through direct technical assistance to firms), have set targets equal to "one to one" (i.e., one dollar of sustained annual exports as a direct result of every dollar invested in the development of those exports). At the other extreme, programs that operate in more developed countries and that act only as facilitators (indirect assistance), can expect to reach targets of \$20 dollars of sustained annual exports

Using these "benchmarks," the BOLINVEST project has done well, particularly considering that results are reported either for investment or for exports, but are not duplicated (i.e., if an investment is reported as a foreign investment, the exports that the investment may generate are not reported under "exports").

- Since the program's start date in 1989, the total cumulative expenditures under the CARANA contract for BOLINVEST have amounted to about \$15,600,000 - roughly half for investment promotion and half for export promotion. At the current expenditure rate, about \$1,300,000 per year is being spent on each of the activities.

Using the same benchmarks, the program should be developing new exporters with the capability to generate and maintain at least \$2,000,000 in annual exports and \$15,000,000 in new foreign investments (or 1,300 new jobs per year).

BOARD OF DIRECTORS - ROLE AND ISSUES

PROGRAM TARGETS AND RESULTS - Continued

There are also some benchmarks that can be used to measure the performance of overseas offices. However, these have been established for offices that specialize in either export or investment promotion. BOLINVEST's overseas offices carry out both activities, and this precludes applicability of many of these benchmarks.

- Currently, the planning division in BOLINVEST is reviewing the results of each of the offices in order to establish internal guidelines.

In establishing targets for more socially oriented projects such as PROATEC, there is even less experience, and consequently it is very difficult to determine what are realistic targets.

- Ultimately, these types of targets are negotiated with donors.

As of September 1995, the BOLINVEST project reported total exports of \$126.3 million, and total investments of \$57.2 million.

These clearly are impressive results for a program of this nature, and no other institution in Bolivia has achieved this level of success and impact.

The results are constantly audited by AID, which is useful in helping to measure such issues as "attribution" of results (i.e., how much BOLINVEST contributed to the generation of results by the company).

The economic impact of this project has also been estimated. In 1994, AID economists carried out an evaluation of the development impact of the project, and found it to be very positive impact (first time job creation, improvement of wages, etc.).

BOARD OF DIRECTORS - ROLE AND ISSUES

RELATIONSHIP WITH THE PRIVATE AND PUBLIC SECTOR

BOLINVEST's relationship with the public sector and other private sector institutions has been tenuous and clearly needs to be addressed.

- This is one area where the Board of Directors needs to take the lead.

PROMOTION AND PUBLIC RELATIONS

CARANA's philosophy has always been that projects like BOLINVEST should be implemented with as little publicity as possible. While acceptable for a private contractor, it has not worked in the best interests of BOLINVEST, especially now that a decision has been made to convert the project to a permanent institution.

- There is clearly a lack of awareness in Bolivia as to the role that BOLINVEST has played and the results that it has achieved. As a consequence, BOLINVEST does not enjoy the support from the public and private sector that it should, and has even failed to develop a support group among the companies it has assisted over the years.

It is essential that BOLINVEST work to build a constituency an image, repairing any negative images that may have been created in the past.

PROGRAM ISSUES

PROGRAM ISSUES

INTRODUCTION

In converting from a "contract project" to a permanent, non-profit foundation, BOLINVEST will be facing its greatest challenge yet. Old issues and concerns will not go away. Rather, new ones - such as the need to work with multiple donors for different projects - will be added.

Throughout this transition process BOLINVEST must continue to strive for better results and greater efficiency. Management and the Board of Directors must constantly ask themselves key questions:

- Is BOLINVEST the ideal institution?
- Are there ways in which we can improve services, become more efficient, and/or increase results?
- Is the organization, as it is defined today, the ideal organization for the future?
- Are we working to develop the right types of projects for the future?
- Are our goals and priorities relevant?

For some of these issues, there is no "right" or "wrong" position. Decisions in the past were made based on circumstances at the time. What may have been an appropriate action then, may need to be reviewed now. An organization that does not ask itself these types of questions runs the risk of becoming obsolete.

In preparing to transfer control of the project to an independent Board of Directors we have begun already to ask some of these questions. In this section of the report we explore some of the issues, raising concerns where appropriate.

PROGRAM ISSUES

STRATEGIC PLANNING

In the past, BOLINVEST's strategic options have been limited by the scope of the current AID contract (export and investment promotion activities).

- As the organization moves in to a multi-donor environment, however, the possibilities for action multiply tremendously.
- Assuming that the Foundation's main objective is to contribute in general to the economic development of Bolivia, we now have the option to look at different types of programs that are not limited to just export and investment promotion activities.

On the other hand, BOLINVEST has a great deal of experience in the promotion of exports and investment which argues for a concentration in investment and export promotion.

- But will donors fund these activities in the future?
- Does Bolivia still require an export assistance or investment promotion program?

These questions have never been fully explored, and yet the answers to these questions will define the BOLINVEST of tomorrow. It is critical, however, that BOLINVEST not lose focus and become all things to all donors.

The Board of Directors and senior management need to address these issues through a strategic planning process. This type of planning is different in scope than anything that the institution has done before. The results of this process will define the direction of the Foundation for the next few years.

Prior to initiating such a planning process, BOLINVEST will have to carry out discussions with the donor community, in order to gain a better understanding of what types of projects donors are willing to finance in the future.

PROGRAM ISSUES

ORGANIZATION STRUCTURE

The current organization is structured to focus on export and investment promotion functions.

- However, new responsibilities such as project and proposal development will be essential to BOLINVEST's survival.
- Furthermore, working with different donors will introduce greater volatility. This will eventually force the organization towards a structure with a central core staff (management, administration and "product" development). This staff will oversee a donor funded projects, which will change constantly with the changes in donor funding.

In the short run, the current structure will work. However, the Board and management should begin working on a new Foundation structure which is more in line with the concept of donor funded projects as described above.

PROGRAM ISSUES

GENERAL ISSUES

In Section III of this report, we raised several issues that need to be addressed by the Board in the coming months.

- Personnel management and policy.
- Financial issues
 - Budgeting
 - Endowment
 - Proposal pricing (indirect rates and core unit funding)
 - Cost sharing - Fees for services
 - General fund raising activity
 - Financial projections
 - New administrative and auditing functions
- Review of new funding sources (donor analysis - other alternatives)
- Review of targets - methodology for establishing and measuring targets
- New project development
- General promotion of BOLINVEST
 - Coordination with the private sector
 - Coordination with the public sector
- Strategic Planning

All of these are areas where the Board may chose to change past policies or reinforce existing ones. Some will require the organization to initiate new activities.

When requesting that the organization undertake new activities, the Board should keep in mind that current staff is already productive and at times overburdened.

PROGRAM ISSUES

EXPORT AND INVESTMENT PROMOTION ISSUES

A planning process, as described on page 58, may alter radically the direction of the Foundation in the long term. However, current funding and proposals for additional funding over the next few years all still are geared toward BOLINVEST's traditional export and investment promotion effort. The remainder of this section addresses on specific export and investment promotion issues and areas for improvement.

INVESTMENT PROMOTION

The turnover in investment promotion staff has weakened the institution's knowledge in this area. As discussed in the first section of this report, investment promotion is very different than export promotion and, given that individuals and units within the organization must now carry out both types of activities, there is a need to provide additional training in the former area.

- A quick training assessment needs can be conducted.
- The assessment should look at both domestic and foreign operations.

PROGRAM ISSUES

EXPORT AND INVESTMENT PROMOTION ISSUES - FOREIGN OFFICES

In the past, we have not measured the effectiveness of our foreign offices as well as we could have. These offices represent an important resource, and the degree to which a particular office is not effective, affects overall program efficiency.

- Earlier in the year we reviewed a methodology for measuring office results and more importantly, made sure that we were collecting the data needed to measure results accurately. At the end of 1995, management should be in a position to better judge the effectiveness of the different offices.

A second issue regarding our foreign presence is the loss of the U.S. office in 1994.

- Given the importance of this marketplace, and the loss of CARANA as a resource in the United States to carry out certain activities, identifying a source of funds for such an office should become a major priority for the program.

A third issue is the amount of time that foreign offices spend on investment promotion vs. export promotion.

- In the past, foreign promoters have been given a great deal of flexibility to determine the relative effort made in each area.
 - As a consequence, many foreign promoters concentrated their efforts in those areas where they were achieving results.
- In the future, it may be useful to establish firmer guidelines for the allocation of time spent in each activity.

PROGRAM ISSUES

EXPORT AND INVESTMENT PROMOTION ISSUES - CLIENTS - EXPORT PROMOTION

BOLINVEST has been able to maintain a mix of clients, some of which are very sophisticated and require minimal assistance, and others that need greater levels of assistance.

- The need to demonstrate results and meet targets, on one hand, and the need to carry out real exporter development assistance, on the other, has led to this mix.
- This client mix has been viewed as a strength in past project evaluations.

In the future, it may be difficult to maintain this mix due to requirements for certain levels of cost sharing. Larger, more developed clients can pay more for services, but a strategy to pursue these clients will lead the organization in a more commercial direction, making it (less development oriented).

A related issue involves the number of clients serviced. BOLINVEST has worked to reduce the overall number by "graduating" several clients, allowing it to provide better (i.e., more intense) services to a smaller number of clients.

Over time as clients graduate, the identification of new clients that meet program criteria will become more difficult as the number of companies with viable export capabilities shrinks.

Diminishing resources may force BOLINVEST to work with fewer clients.

While the selection process for clients is very strict, the determination of the appropriate mix of clients has been done in a more informal manner. The Board will have to review this issue, keeping in mind that the numbers and types of clients selected have a direct impact on program results and cost recovery. Donors will also have a say as to the types of clients they wish to service.

PROGRAM ISSUES

EXPORT AND INVESTMENT PROMOTION ISSUES - INFORMATION RESOURCES

The project has developed an impressive library of information and yet it appears to be underutilized, both by in-house staff and from outside.

- In-house staff should be more aware of what type of information is available.
- The issue as to whether or not the use of the library should be promoted outside of the organization and in what form has not been determined.

A secondary issue has to do with keeping the library updated, and with accessing other information sources that are currently accessed by CARANA in the United States. With the loss of the CARANA contract, BOLINVEST will lose direct support in these areas.

BOLINVEST needs to begin working now to plan on how best to maintain these services upon completion of the CARANA contract.